

# FISCAL NOTE

**Bill #:** HB0676

**Title:** Allocate part of income taxes derived from natural resource projects to schools

**Primary Sponsor:** Maedje, R

**Status:** As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
-------------------	------	-----------------------------	------

## Fiscal Summary

	<b><u>FY 2006 Difference</u></b>	<b><u>FY 2007 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$0	\$0
<b>Revenue:</b>		
General Fund	\$0	\$0
<b>Net Impact on General Fund Balance:</b>	\$0	\$0

- |   |  |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact    | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached  | <input type="checkbox"/> Needs to be included in HB 2  |

## Fiscal Analysis

### ASSUMPTIONS:

1. Beginning January 1, 2006, this bill would allocate 10% of individual income taxes from natural resource projects to a new state special revenue account to be used for BASE school funding. The bill defines "natural resource project" as the construction of a power plant, transmission line, oil or gas well, or rail line or an existing logging, farming or ranching operation.
2. As it is written, the Department of Revenue would not be able to administer this bill because the department does not have a way to identify income tax returns from individuals or entities with income from natural resource projects or to identify the portion of income reported on a return that is from natural resource projects rather than other sources. (See technical notes.)
3. This fiscal note provides general information about the revenue and cost impacts this bill would have if it were amended so that the Department of Revenue could administer it.
4. The annual value of construction and sales meeting this definition is approximately \$2.7 billion. If net income equals 5% of sales, taxable income from natural resource projects is approximately \$135 million.
5. Most of the income from natural resource projects would be earned by corporations paying corporate license tax. If fifteen percent of taxable income is received by individuals or entities paying individual income tax at an average rate of 5%, \$1 million (5% x 15% x \$135 million) of individual income tax revenue would be deposited in the new special revenue account rather than the general fund.

## **Fiscal Note Request HB0676, As Introduced**

(continued)

6. The amount of BASE funding for schools is set in statute. Under current law, BASE aid to schools comes from two sources: the state special guarantee fund with revenue from interest and income from the school trust and school lands is dedicated to BASE aid, but the majority of funding is appropriated from the general fund. As written, this bill would provide an additional source of dedicated funding for BASE aid. Revenue of \$1 million to a new special revenue account dedicated to BASE aid would reduce the general fund appropriation for BASE aid by the same amount.
7. If the bill were amended to require taxpayers to provide information necessary to make these determinations, the department would have additional costs for forms development, computer system development, and additional personnel. At least one additional auditor would be required, with one-time equipment costs of \$5,800 and ongoing operating and personnel costs of \$43,887 per additional auditor.

### TECHNICAL NOTES:

1. If the intent of the bill is to provide additional funding for schools, a different mechanism is needed.
2. It is not possible for the Department of Revenue to administer the provisions of this bill in its introduced form. First, there is no direction provided as to how to define “income taxes collected from a natural resources project”, or what these taxes include. Do these taxes include just the income accruing to the businesses that are responsible for each project? Do income taxes includes the wages and salaries of all workers who are hired to work on a given project?
3. Second, there is no way to determine the amount of individual income taxes associated with any given projects in the state; this is particularly true if the allocation pertains to wages paid by workers working on these projects. When a taxpayer files an individual income tax return, there is no means of identifying the source of the wage income. Workers may work on several different projects during the year, some of which include “natural resource projects” and some of which may not. The taxpayer has no means of knowing, first, that wages from natural resource projects would have to be identified on the taxpayers return, and, second, how are these wages to be segregated from other wages to determine the income tax attributable only to those wages paid for work on a “natural resource project”?
4. In the case of existing farming or ranching operations, most of the farming and ranching businesses that pay individual income tax report a net loss for the year. It is not clear how these losses should enter into the calculation of the amount to deposit in the new special revenue fund.
5. It would not be possible to attribute a percent of an individual’s income tax to one of these natural resources categories without clearly stating which particular items of income (direct items such as wages, interest, royalties, capital gains, or indirect items such as dividends, and pass-through items of S corporations and partnerships, etc.), and what particular items of deduction (taxpayer’s own natural resource related deductions such as timber harvesting expense, depreciation on farm equipment, etc. and those of S corporations and partnerships, such as intangible drilling expenses, equipment depreciation, etc.) should be segregated and taken into account. Does the allocation come before or after certain tax credits taken by the individual?
6. It doesn’t appear possible to identify the amount of income taxes associated with a natural resource project. Business activities would be reported on a schedule C, but the overall tax of an individual’s return is dependent upon all schedule C income, along with deductions, personal exemptions and other sources of income. It’s unclear how the tax associated with a natural resource activity could be segregated. It certainly couldn’t be segregated upon receipt of a return. It would require every return with a schedule C to be flagged and then examined to determine if the schedule C income was natural resource related and then a proportionate amount of tax would need to be calculated.